VZCZCXRO0080
RR RUEHROV
DE RUEHDS #0962/01 0891233
ZNR UUUUU ZZH
R 301233Z MAR 07
FM AMEMBASSY ADDIS ABABA
TO RUEHC/SECSTATE WASHDC 5374
INFO RUCNIAD/IGAD COLLECTIVE
RUEHNR/AMEMBASSY NAIROBI 2934
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC 0011

UNCLAS SECTION 01 OF 02 ADDIS ABABA 000962

SIPDIS

SENSITIVE
SIPDIS

STATE PASS TO USTR

E.O. 12958: N/A
TAGS: ECON ETRD EINV ET
SUBJECT: ETHIOPIA: CENTRAL BANK CITES POSITIVE GROWTH,
WARNS OF INFLATION, DOUBTS ON WTO ACCESSION

REF: ADDIS ABABA 776

ADDIS ABAB 00000962 001.2 OF 002

¶1. (U) SUMMARY. During his semi-annual report to parliament March 22, Governor of the National Bank of Ethiopia (central bank) Teklewold Atnafu forecast another year of double-digit growth in 2007 and warned that inflation would continue to be a major concern. Teklewold reported that although exports reached USD 421 million in the first half of 2007 (a 6 percent increase over the same period last year), the trade deficit widened to USD 1.9 billion. With regard to Ethiopia's ongoing WTO accession, Teklewold said that liberalization of the financial sector would be difficult, as local banks were not yet positioned to compete with foreign competitors. END SUMMARY.

STEADY DOUBLE-DIGIT GROWTH

¶2. (U) The governor of the National Bank of Ethiopia (NBE) reported to parliament March 22 that Ethiopia's average annual real GDP growth for the past three years was 10.7 percent. Teklewold said that current fiscal year growth was estimated to be 10.1 percent. He noted that inflation reached 13.6 percent at the close of December 2006, and was triggered by the country's successive high economic growth. According to Teklewold, rising rural income, additional micro-finance facilities, growing availability of market information, and steady economic growth had caused a 14.6 percent increase in food prices. He also cited high oil prices and increases in the prices of essential imported goods as contributors to inflation. Teklewold assured members of parliament that the country's growing cash reserves were not a cause of inflation.

EXPORTS RISING

¶3. (U) Noting that foreign trade expanded due to trade-friendly policies instituted by the government, Teklewold reported that exports for the first half of 2006/07 totaled USD 421 million, a 6.1 percent increase from last year. He added that while pulses, leather products, fruits, vegetables, and floriculture accounted for a large portion of Ethiopia's exports, coffee represented nearly 38 percent of all total exports. Teklewold cautioned, however, that the country had only reached 32.5 percent of its annual target of

USD 1.3 billion. Total imports, on the other hand, reached over USD 2.4 billion, resulting in a trade deficit of USD 1.9 billion.

BEARISH ON WTO ACCESSION

¶4. (U) Asked whether Ethiopia was ready to liberalize its financial sector and establish stock and bond markets as required under the WTO terms of accession, Teklewold said that the government believed that local banks were not yet in a position to compete with foreign banks, and establishing stock and bond markets was not possible at this time. He explained that developing countries like Ethiopia may take up to 10 years to liberalize certain sectors, and that the NBE was currently conducting a feasibility study on establishing stock and bond markets. Teklewold added that eventually Ethiopia had to open its financial sector to foreign competition.

CURBING EXCESSIVE RESERVES

¶5. (U) Teklewold reported that growing commercial bank cash reserves forced the NBE to institute a floor on interest rates and a ceiling on government credit. Additionally, he said, the NBE decided to invest in telecommunication services projects, rural electrification projects, and expansion of the export sector, to reduce excess reserves. According to the governor, reserves declined to USD 735 million at end of December 2006, compared with USD 1.2 billion last year.

¶6. (SBU) COMMENT: The central bank highlighted positive macroeconomic indicators, though the governor likely paints an overly rosy picture. The IMF, for instance, has privately

questioned Ethiopia's reported growth rates (reftel). The poor, middle class, and those on a fixed income bear the brunt of rising inflation. At this stage, inflation poses the greatest risk to derailing Ethiopia's continued growth and stability. END COMMENT.
YAMAMOTO